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FISCAL IMPACT STATEMENT

LS 6427

BILL NUMBER: HB 1302

NOTE PREPARED: Jan 10, 2010

BILL AMENDED:

SUBJECT: Elimination of property taxes.

FIRST AUTHOR: Rep. Thompson

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill eliminates all ad valorem property taxes. It provides for the implementation of a local residential income tax, a local fire and safety benefit tax, a state commercial activity tax, and a state employer payroll expense tax to replace revenue lost to political subdivisions from the elimination of property taxes. The bill increases the state gross retail and use tax and reduces the state adjusted gross income tax rate. The bill makes other changes to the tax laws and makes appropriations.

Effective Date: July 1, 2010; January 1, 2011; July 1, 2011.

Explanation of State Expenditures: *Commercial Activity Tax and Employer Payroll Expense Tax:* These taxes would be collected by the Department of State Revenue (DOR) and distributed to local taxing units. There would be a substantial increase in administrative costs for the DOR to implement two new tax systems including new tax forms, new computer software, additional employees, and various other support expenses. This increase is currently indeterminable.

Local Residential Income Tax: It is assumed that this tax would be reported and paid along with the state individual income tax. This provision would result in an increase in administrative costs for the DOR by requiring the DOR to revise income tax forms, update computer software, and track tax collections for each taxing district. This increase is indeterminable and will depend on the amount of resources that would be required to incorporate the various local taxing unit income tax rates.

Sales Tax: This provision would result in an increase in administrative costs for the DOR by requiring the DOR to revise sales tax forms as well as update computer software. This increase is indeterminable and will depend on the amount of resources that would be required to incorporate the rate increase. It is estimated that

the DOR will be able to implement this provision with its existing level of resources.

Explanation of State Revenues: Net Impact on State revenues from the increase in the sales tax rate and the decrease in the individual adjusted gross income tax would be an increase of \$157.3 M in FY 2011 and a reduction of \$81.6 M in FY 2012.

Net Impact on State Revenue (In Millions)		
	FY 2011	FY 2012
Sales Tax	\$157.3 M	\$392.4 M
Individual Income Tax	0	(474 M)
Net Impact	\$157.3 M	(\$81.6 M)

Sales Tax: By increasing the sales tax rate to 7.5%, this bill could potentially increase revenue by \$157.3 M in FY 2011 and \$392.4 M in FY 2012. The amount for FY 2011 is adjusted for five months of collections due to the January 1, 2011, effective date of the rate change. The bill directs all new revenues from the Sales Tax increase to be deposited in the state General Fund, while holding the other funds “harmless”. The estimates are based on the Revenue Technical Committee Forecast (December 15, 2009).

Under the bill, Sales Tax revenue would be deposited in the state General Fund (99.231%), the Public Mass Transportation Fund (0.627%), the Commuter Rail Service Fund (0.115%), and the Industrial Rail Service Fund (0.027%).

The bill also changes the retail merchant collection allowances received by retailers through the collection allowance after the increase in the rate. This change has the same effective date as the rate increase provision. The table below shows the current allowance percentages and the new percentages under the bill.

Retailer's Sales Tax Collection Allowance		
Gross Sales Tax Liability	Current %	New %
Not more than \$60,000	0.73%	0.68%
Greater than \$60,000, not more than \$600,000	0.53%	0.49%
Greater than \$600,000	0.26%	0.24%

Individual Income Tax: The bill would reduce Individual Adjusted Gross Income Tax rate from 3.4% to 3% beginning in FY 2012. It is estimated that this rate reduction could result in a revenue loss totaling \$474 M in FY 2012. The revenue loss could potentially increase by an average of 4.3% per year thereafter. The estimate is based on the Revenue Technical Committee Forecast (December 15, 2009) for FY 2011 Individual AGI Tax revenue and assume FY 2012 growth will equal the long run average of about 4.3%.

Background Information - Sales Tax revenue is currently deposited in the General Fund (99.178%), the Public Mass Transportation Fund (0.670%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

Revenue from the Individual AGI Tax is distributed to the state General Fund.

Explanation of Local Expenditures: *Property Tax:* Beginning with the March 1, 2010, assessment date under this bill, property would no longer be subject to assessment. The county would, however, continue to maintain a description of the property in the county. A substantial portion of the costs currently incurred by county and township assessor offices would be eliminated under this bill.

Explanation of Local Revenues: *Local Budgets:* Under this proposal, local taxing units would submit their proposed budgets, tax rates, and levies to the county auditor for review by the county board of tax adjustment (TAB) or by the county auditor in a county without a TAB. The TAB (or the auditor) could accept, revise, reduce, or increase the taxes, tax rates, and the part of the budget funded from taxes in order to enforce the tax limits.

The limits that currently apply to property taxes would apply to the revenues derived from the other taxes allowed under this bill. Overall however, net revenues would increase for local civil taxing units and school corporations because there would be no loss of tax collections associated with the current property tax circuit breaker.

Property Tax: Beginning with taxes payable in 2011, property taxes may not be levied under this bill. In CY 2011, under current law, net property tax on real and personal property, after all credits is estimated at \$5,894 M. The estimate is \$5,921 M in CY 2012 and \$5,942 M in CY 2013.

Local Residential Income Tax: Under this provision, each taxing unit would be able to impose an income tax on residents and some non-residents who are employed in the taxing unit's tax area. The tax area for a school corporation is the area within the school corporation boundaries. The tax area for a municipality or for a taxing unit that lies totally within the boundaries of a municipality is the area within the municipality's boundaries. The tax area for all other taxing units is the entire county. The tax rate set by each taxing unit could not exceed the unit's budget amount less all other available revenues.

This tax would be collected by the DOR and distributed to the taxing units for which the taxes were collected. The fiscal impact of this provision depends on local action.

Fire and Safety Benefit Tax: This provision would allow a county, city, town, township, or fire protection district to impose a fire and safety benefit tax on all real property in the entity or in the entity's contract service area. Property that is currently exempt from property tax would be exempt from the tax under this provision.

The tax may be determined based on any combination of (1) the acreage or frontage of the land, (2), the relative crime or fire risk of the property, and (3) the relative costs of special facilities or equipment needed to serve the property. Revenue from the tax may not exceed 50% of the total revenue needed for all public safety expenses, a bond sinking fund, and working capital.

This tax would be collected by the entity that imposes the tax. The county treasurer would collect delinquent taxes. The fiscal impact of this provision depends on local action.

Commercial Activity Tax: This provision would impose a tax on the gross receipts on entities doing business in Indiana. Each taxpayer would be entitled to a \$1,000 deduction against their gross receipts base. Qualifying distribution center receipts would be exempt from the tax if (1) the distribution center has costs exceeding \$500 M, (2) goods with more than 50% of the cost are shipped out of state, and (3) the distribution center pays an annual fee of \$100,000. The rate imposed against gross receipts would be 0.25%.

This tax would be collected by the DOR and distributed to taxing units based on the percentage of statewide average business property value located in each taxing unit. The fiscal impact of this provision is currently indeterminable.

Employer Payroll Expense Tax: This provision would impose a tax on employers equal to 0.25% of pay for employees that are Indiana residents or perform work in Indiana. Local, state, and federal governments would be exempt from the tax as would state and nonprofit universities, any 501(c)(3) entity, and any other religious, charitable, scientific, literary, or educational entity so long as the entity's income is not used for private benefit.

This tax would be collected by the DOR and tracked by the taxing district in which each employee resides. The total collected for each taxing district would be distributed to taxing units in the district based the proportion of each taxing unit's total budget to the total budgets of all units in the district. The fiscal impact of this provision is currently indeterminable.

Sales Tax: Local revenues will increase to the extent that a local unit receives funds from the Public Mass Transportation Fund, the Commuter Rail Service Fund, or the Industrial Rail Service Fund.

State Agencies Affected: Department of State Revenue; Department of Local Government Finance.

Local Agencies Affected: All.

Information Sources: Revenue Technical Committee Forecast (December 15, 2009); LSA parcel-level assessment and tax database.

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